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Nos. 86-495, 86-624 and 86-625

IN THE

Supreme Court of the United States

OCTOBER TERM, 1986

K MART CORPORATION,
Petitioner,
v.
CARTIER, INC., *et al.*

47TH STREET PHOTO, INC.,
Petitioner,
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

UNITED STATES OF AMERICA, *et al.*,
Petitioners,
v.
COALITION TO PRESERVE THE INTEGRITY OF AMERICAN TRADEMARKS, *et al.*

On Writs of Certiorari to the United States Court of Appeals for the District of Columbia Circuit

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BRIEF FOR PETITIONER K MART CORPORATION

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QUESTION PRESENTED

Since 1936, the Customs Service has interpreted and applied Section 526 of the Tariff Act of 1930 and Section 42 of the Lanham Act to allow the "parallel importation"* of genuine trademarked merchandise manufactured abroad in two narrow circumstances: (1) When the domestic and foreign trademark owners are affiliated; and (2) when the goods have been trademarked abroad with the authorization of the domestic trademark owner.

This case presents the following question: Is the Customs Service regulation on parallel imports valid either (a) as the proper interpretation of these statutes or (b) as a permissible exercise of agency enforcement discretion.

* "Parallel imports" or "grey market" goods are genuine foreign goods which bear an internationally recognized trademark. But rather than being imported by the American subsidiary of a foreign manufacturer and sold at artificially inflated prices, parallel imports are independently imported and sold at competitive prices to the American consumer. Parallel imports are economically feasible because foreign manufacturers charge a lower price abroad than in the United States.

PARTIES TO THE PROCEEDING BELOW

Plaintiffs-Appellants

Cartier, Inc.

Charles of the Ritz Group, Ltd.

*Coalition to Preserve the Integrity of American Trademarks

Defendants-Appellees

United States of America

James A. Baker III, Secretary of the Treasury (formerly Donald T. Regan)

William Von Raab, Commissioner of Customs

Intervenors-Appellees

K mart Corporation
47th Street Photo, Inc.

Rule 28.1 Listing

K mart Corporation states that it is a publicly held corporation with no parent companies, subsidiaries or affiliates to list pursuant to Rule 28.1.

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* The Coalition to Preserve the Integrity of American Trademarks ("COPIAT") is an ad hoc trade association comprised largely of the domestic sales and marketing affiliates of foreign manufacturers of trademarked goods. Because of the affiliations between these foreign manufacturers and their domestic distributors, the Customs Service allows parallel imports of merchandise bearing trademarks owned by COPIAT members. Both Cartier, Inc. and Charles of the Ritz Group, Ltd. are members of COPIAT and are owned by foreign companies. A "nearly current" list of COPIAT's membership appears in the November 19, 1986 Brief for Respondents on Petitions for Writs of Certiorari at p. 1a.

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BRIEF FOR PETITIONER K MART CORPORATION

OPINIONS BELOW

The opinion of the Court of Appeals for the District of Columbia Circuit (Circuit Judges Mikva, Bork and Silberman) is reported at 790 F.2d 903 (K mart Pet. p. 1a).

The memorandum opinion of the United States District Court for the District of Columbia (District Judge Norma Holloway Johnson) is reported at 598 F. Supp. 844 (K mart Pet. p. 38a).

JURISDICTION

The judgment of the court of appeals was entered on May 6, 1986 (Federal Pet. p. 51a). Petitions for rehearing were denied on July 18, 1986 (K mart Pet. p. 35a).

Petitions for a writ of certiorari were filed on September 26, 1986 by K mart (No. 86-495) and on October 16, 1986 by 47th Street Photo, Inc. (No. 86-624) and the Federal Petitioners (No. 86-625). In granting the petitions on December 8, 1986, the Court consolidated the three cases (J.A. 86, 87 & 88).

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATUTES AND REGULATIONS INVOLVED

Section 526 of the Tariff Act of 1930, 19 U.S.C. § 1526, provides, in pertinent part:

> Importation prohibited
>
> (a) Except as provided in subsection (d) of this section, it shall be unlawful to import into the United States any merchandise of foreign manufacture if such merchandise, or the label, sign, print, package, wrapper, or receptacle, bears a trademark owned by a citizen of, or by a corporation or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States, under the provisions of sections 81 to 109 of Title 15, and if a copy of the certificate of registration of such trademark is filed with the Secretary of the Treasury, in the manner provided in section 106 of said Title 15,

unless written consent of the owner of such trademark is produced at the time of making entry.

Seizure and forfeiture

(b) Any such merchandise imported into the United States in violation of the provisions of this section shall be subject to seizure and forfeiture for violation of the customs laws.

Section 42 of the Lanham Act, 15 U.S.C. § 1124, provides in pertinent part:

> [N]o article of imported merchandise which shall copy or simulate the name of the [sic] any domestic manufacture [sic], or manufacturer, or trader, or of any manufacturer or trader located in any foreign country . . . or which shall copy or simulate a trademark registered in accordance with the provisions of this chapter . . . shall be admitted to entry at any customhouse of the United States. . . .

The Customs Service regulation, 19 C.F.R. § 133.21 (1986), provides in pertinent part:

> (b) *Identical trademark.* Foreign-made articles bearing a trademark identical with one owned and recorded by a citizen of the United States or a corporation or association created or organized within the United States are subject to seizure and forfeiture as prohibited importations.
>
> (c) *Restrictions not applicable.* The restrictions set forth in paragraphs (a) and (b) of this section do not apply to imported articles when:
>
> > (1) Both the foreign and the U.S. trademark or trade name are owned by the same person or business entity; [or]
> >
> > (2) The foreign and domestic trademark or trade name owners are parent and subsidiary companies or are otherwise subject to common ownership or control (see §§ 133.2(d) and 133.12(d); [or]

(3) The articles of foreign manufacture bear a recorded trademark or trade name applied under authorization of the U.S. owner. . . .

STATEMENT OF THE CASE

At issue is Customs Service regulation 19 C.F.R. § 133.21, which interprets and applies Section 526 of the Tariff Act of 1930 and Section 42 of the Lanham Act. In general, a United States trademark owner can prevent the "unauthorized" importation of genuine trademarked merchandise manufactured abroad, *i.e.*, "parallel imports" or "grey market goods". The Customs Service, however, does not recognize or enforce the domestic trademark owner's right to such exclusion of parallel distribution imports under two narrow circumstances: (1) When the domestic and foreign trademark owners are affiliated; and (2) when the goods have been trademarked abroad with the authorization of the domestic trademark owner. Some 13 years after this regulation was adopted, and over fifty years after a similar regulation was first adopted, the respondents herein filed an action to have the regulation declared void on the ground that Section 526 requires the exclusion of all parallel imports. The district court upheld the regulation.

The Court of Appeals for the District of Columbia Circuit, contrary to every other court which has considered the issue, held that the Customs Service regulation on parallel imports was inconsistent with Section 526 and therefore invalid.[1] The court of appeals decision has

[1] The regulation has been sustained by the Federal Circuit in *Vivitar Corp. v. United States*, 761 F.2d 1552 (Fed. Cir. 1985), *aff'g* 593 F.Supp. 420 (Ct. Int'l Trade 1984), *cert. denied*, 106 S.Ct. 791 (1986), and by the Second Circuit in *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986), *aff'g* 627 F.Supp. 911 (E.D.N.Y. 1985), *petition for cert. filed*, No. 86-757 (Nov. 6, 1986). In addition, parallel import competition has survived trademark law and/or tariff law challenges in the following cases: *United*

been criticized even by a district court within the District of Columbia Circuit. On January 21, 1987, the Honorable Harold H. Greene, after holding that the *COPIAT* decision was not binding, declared that "the [parallel imports] regulation is a reasonable exercise of the Custom Service's enforcement discretion." *Lever Brothers Co. v. United States*, Civil Action No. 86-3151 (D.D.C. Jan. 21, 1987). In the view of the court of appeals, however, Section 526 requires the Customs Service to exclude all parallel imports, contrary to an agency practice which, because it is both logical and consistent with legislative intent and public policy, has been in force for over five decades.[2]

I. The Parties.

The Coalition to Preserve the Integrity of American Trademarks ("COPIAT") is an ad hoc trade association

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States v. Guerlain, Inc., 155 F.Supp. 77 (S.D.N.Y. 1957), *vacated & remanded*, 358 U.S. 915 (1958), *dismissed*, 172 F.Supp. 107 (S.D.N.Y. 1959); *Monte Carlo Shirt, Inc. v. Daewoo International (America) Corp.*, 707 F.2d 1054 (9th Cir. 1983); *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983); *Diamond Supply Co. v. Prudential Paper Products Co.*, 589 F.Supp. 470 (S.D.N.Y. 1984); *El Greco Leather Products Co. v. Shoe World, Inc.*, 599 F.Supp. 1380 (E.D.N.Y. 1984), *rev'd on other grounds*, 806 F.2d 392 (2d Cir. 1986); *Parfums Stern, Inc. v. United States*, 575 F.Supp. 416 (S.D. Fla. 1983); *United States v. Eighty-Nine Bottles of "Eau de Joy"*, 797 F.2d 767 (9th Cir. 1986); *American Honda Motor Co. v. Carolina Autosports Leasing & Sales, Inc.*, 645 F.Supp. 863 (W.D.N.C. 1986). Parallel import competition has also recently survived a challenge under the Uniform Commercial Code in *Johnson & Johnson Products, Inc. v. DAL International Trading Co.*, 798 F.2d 100 (3d Cir. 1986).

[2] By orders dated May 6, 1986 and August 6, 1986, the court of appeals stayed issuance of its mandate until September 30, 1986 in order to give the parties a meaningful opportunity to petition for a writ of certiorari (K mart Pet. pp. 34a, 37a). By operation of Rule 41(b) of the Federal Rules of Appellate Procedure, and by virtue of K mart's September 26, 1986 petition, the court of appeals mandate is stayed pending final disposition by this Court.

composed largely of the domestic sales and marketing affiliates of foreign companies which manufacture trademarked goods abroad. Under the Customs Service regulation, COPIAT members do not have the right to the automatic exclusion of parallel imports since the foreign and domestic trademark owners are affiliated. Respondent Cartier, Inc. ("Cartier"), for example, is wholly owned by the Dutch corporation which manufactures CARTIER products overseas. By "assignment" from its Dutch parent company, Cartier claims American rights to the CARTIER trademark. Similarly, Respondent Charles of the Ritz Group, Ltd. ("Charles of the Ritz"), which holds the American license to YVES SAINT LAURENT fragrances, is now owned by the French company Yves Saint Laurent S.A. These COPIAT members and other foreign companies promote their trademarks worldwide and sell identical trademarked products globally,[3] but attempt to charge much higher prices in the United States than elsewhere in the world. Hence, there is an economic incentive for the independent or "parallel" importation of products for sale to American consumers at a substantial price discount.

K mart operates more than 2,000 discount department stores in the United States. K mart purchases parallel imports because of their lower price and because many trademark owners refuse to sell directly to price-competitive retailers including K mart. K mart sells parallel imports to the consumer at up to 40% less than the inflated retail prices which COPIAT members and other foreign manufacturers seek to maintain in the United States.

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[3] Recently the Court of Appeals for the Federal Circuit observed that because of this practice, the American consumer cannot necessarily distinguish between a foreign manufacturer and its affiliated domestic distributor with a similar name. *In re Wella A.G.*, 787 F.2d 1549, 1552-1553 (Fed. Cir. 1986).

II. The Issues.

At the outset, it is important to recognize what this case is not about. It is not about protecting "intellectual property rights" of American inventors; parallel imports are manufactured abroad and, in most cases, embody foreign rather than American technological innovation. It is not about "counterfeit" goods; parallel imports are by definition genuine goods which have been manufactured by or for the trademark owner. It has nothing to do with "erosion" of goodwill or "free-riding"; the foreign manufacturer/trademark owner has been fully paid for the trademarked goods. It is not about protecting American manufacturing industries; the American industries in most products which are parallel imported—such as cameras, watches and consumer electronics—have to a large degree already migrated or integrated overseas due to competition from foreign manufacturers.

The case is about foreign multinational companies such as COPIAT members Cartier, Charles of the Ritz, Canon, Carl Zeiss, Minolta, Seiko and Sony which are merely the wholly owned and controlled distributors in the United States for goods manufactured abroad by their foreign parent companies. These foreign companies sell cameras, watches, consumer electronics and many other products abroad at a much lower price than they sell them in the United States, despite the fact that they advertise, sell, guarantee and service the very same trademarked products all over the world.[4]

The foreign companies which own and control the members of COPIAT seek to have the Customs Service preserve the United States as an enclave of high prices by overturning the Customs Service regulation on parallel imports as somehow contrary to Section 526 and the legislative intent behind it.

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[4] However, many COPIAT members wrongly refuse to honor their "world-wide" warranties when United States consumers seek satisfaction for defective merchandise.

As every court save the District of Columbia Circuit has recognized, however, the Customs Service regulation rests on sound historical and public policy footings. Section 526 was enacted in 1922 for the express purpose of protecting independent American companies which had purchased domestic trademark rights from foreign companies, specifically to negate the decision in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921). There was not, in the 1920's, any significant quantity of parallel imports of the type COPIAT seeks to exclude in this case, and there is nothing to indicate that Congress ever intended Section 526 to protect foreign manufacturers from price competition in their trademarked goods.

Over the past fifty years, a substantial domestic industry has relied on the Customs Service regulation. Parallel importers sell to discount retailers, such as K mart, which cannot obtain brand name merchandise directly from foreign manufacturers or their wholly owned and controlled domestic distributors—the typical COPIAT members. Almost every consumer has purchased a parallel import at some time and will therefore be affected adversely by the decision below, if it is upheld.[5] A consumer who has saved money by purchasing a name-brand imported camera, watch, perfume or consumer electronic from a discount department store, catalog showroom, independent dealer or mail order house has probably purchased a parallel import. Should the decision below prevail, the Customs Service will force American consumers annually to pay hundreds of millions of dollars in fixed retail price overcharges to foreign manufacturers.[6]

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[5] Annual retail sales of parallel imports are estimated at $6.0 billion. "The Assault on the Right to Buy Cheap Imports," *Fortune*, Jan. 7, 1985, at 89.

[6] The Federal Trade Commission Staff has concluded that the elimination of parallel imports would harm the consumer without providing any demonstrable economic benefit. Comments of the Bureaus of Competition, Consumer Protection and Economics on

SUMMARY OF ARGUMENT

Congress first passed the Tariff Act provision at issue in 1922 for a particular, limited purpose, delegating to the Treasury Department and Customs Service its implementation and enforcement. As early as 1936, the Customs Service issued a regulation on parallel imports which did not differ in substance or effect from the regulation which is in force today.

The Customs Service regulation is consistent with the expressed purposes of both the Tariff Act and the Lanham Act. It promotes the public policy objectives of the antitrust laws. Over the past five decades, Congress has repeatedly been advised of and expressly approved the regulation.

It is hard to conceive of a legislative, judicial or regulatory policy which has endured for such a long period. But in holding the Customs Service regulation invalid as contrary to the Tariff Act and its underlying purpose, the court of appeals defied common sense and ignored accepted rules of statutory construction and longstanding trade practice.

ARGUMENT

The court of appeals misapprehended and misapplied the rules of statutory construction. It held first that Section 526 is so clear on its face that it could be construed in only one way—a way which conflicts with five decades of agency regulations, judicial decisions and executive pronouncements which have construed Section 526, despite its newly discovered "clarity," in a different way. The court of appeals construction is at odds with the law and erroneously shortsighted.

Alternatively, the court of appeals held that Congress did not directly address the question raised by this case

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Gray Market Policy Options Facing the United States Customs Service (Oct. 17, 1986).

and that the legislative history is too ambiguous to be relied upon. Nonetheless, the court refused to defer to agency expertise as reflected in an agency practice of over five decades, refused to acknowledge repeated congressional approval of the Customs Service position, and substituted its own novel judgment for that of the agency.

The opinion of the court of appeals will not bear close scrutiny, either as an accurate rendering of the history and purpose of Section 526 of the Tariff Act or as a proper application of the rules of statutory construction.

The Customs Service regulation, unlike the conclusion of the court of appeals, is consistent with original congressional intent, has been repeatedly ratified by subsequent congresses, and promotes public policy objectives.

I. The Legal Standard.

A court, when reviewing an agency regulation, need only satisfy itself that the agency has reached a "permissible construction of the statute," *Young v. Community Nutrition Institute*, 106 S.Ct. 2360, 2364 (1986), *quoting Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837, 842-844 (1984), one that "is reasonably defensible." *Sure-Tan, Inc. v. NLRB*, 104 S.Ct. 2803, 2809 (1984).

An agency interpretation is entitled to considerable deference and need not be "the only one it permissibly could have adopted . . . or even the reading the court would have reached if the question initially had arisen in a judicial proceeding." *Chevron, U.S.A., Inc.*, 467 U.S. at 842 n.11. *See also FEC v. Democratic Senatorial Campaign Committee*, 454 U.S. 27, 39 (1981).

Just last month, the Court reversed the District of Columbia Circuit when it failed to defer to an agency's statutory construction:

> It is settled that courts should give great weight to any reasonable construction of a regulatory statute adopted by the agency charged with the enforcement of that statute. The Comptroller of the Currency is charged with the enforcement of banking laws to an extent that warrants the invocation of this principle with respect to his deliberative conclusions as to the meaning of these laws.

Clarke v. Securities Industry Ass'n, 107 S.Ct. 750, 759-760 (1987), *citing Investment Company Institute v. Camp*, 401 U.S. 617, 626-627 (1971).

The Court went on to reject, based on legislative history, the respondent's argument that the Comptroller's position was "not entitled to deference because it contradicts the plain language of the statute." 55 U.S.L.W. at 4115.

In the present case, the District of Columbia Circuit likewise ignored the legal standard for evaluating agency action:

> The interpretation of an agency charged with the administration of a statute is entitled to substantial deference, *Blum v. Bacon*, 457 U.S. 132, 141 (1982), if it is a sensible reading of the statutory language, which it surely is in this case, and if it is not inconsistent with the legislative history . . . .

Lawrence County v. Lead-Deadwood School District, 105 S.Ct. 695, 699 (1985). *Accord, Zenith Radio Corp. v. United States*, 437 U.S. 443, 450 (1978); *Red Lion Broadcasting Co. v. FCC*, 395 U.S. 367, 381 (1969) (agency construction "should be followed unless there are compelling indications that it is wrong").

II. The Customs Service Was Directed To Implement And Enforce The Tariff Act.

It is undisputed that the Customs Service, in promulgating 19 C.F.R. § 133.21, followed the rulemaking procedures required by the Administrative Procedure Act, 5

U.S.C. § 701 *et seq.* On December 19, 1970, the Customs Service issued a Notice of Proposed Rulemaking[7] and on October 3, 1972, published a Final Notice[8] adopting what is now 19 C.F.R. § 133.21.

Since at least 1890, the Customs Service has implemented statutes affecting the importation of trademarked articles. *See A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), *answering questions certified at* 292 F. 1013 (2d Cir. 1922). This authority derives from 19 U.S.C. § 66, which, since 1820, has delegated to the Secretary of the Treasury the duty to prescribe the "rules and regulations . . . as may be necessary for the proper execution of the [Customs] law." With specific regard to the Tariff Act of 1930, Title 19, Chap. 4, "the Secretary of the Treasury is authorized to make such rules and regulations as may be necessary to carry out the provisions of this chapter." 19 U.S.C. § 1624.

As the Court has recognized, "Congress has declared [that agency rules promulgated under an express delegation of authority] shall have the full force and effect of law." *General Electric Co. v. Gilbert*, 429 U.S. 125, 141 (1976), *citing Standard Oil Co. v. Johnson*, 316 U.S. 481 (1942). *See also Batterton v. Francis*, 432 U.S. 416, 425 (1977). Courts have applied this rule in the context of many different legislative schemes.[9] This power in-

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[7] 35 Fed. Reg. 19,269.

[8] 37 Fed. Reg. 20,677.

[9] In *Batterton*, regulations under Title IV of the Social Security Act were held to have legislative effect.

In *Mourning v. Family Publications Service, Inc.*, 411 U.S. 356 (1973), the Court sustained the authority of the Federal Reserve Board to promulgate rules under the Truth-in-Lending Act:

> Where the empowering provision of a statute states simply that the agency may "make . . . such rules and regulations as may be necessary to carry out the provisions of this Act," we have held that the validity of a regulation promulgated

clude the "power to make rules that affect substantial individual rights and obligations." *Morton v. Ruiz*, 415 U.S. 199, 233 (1974). A reviewing court is not free to set aside such regulations simply because it would interpret the statute in a different manner. *Batterton*, 432 U.S. at 425, *citing American Telephone and Telegraph Co. v. United States*, 299 U.S. 222, 235-237 (1936).

In short, a statute which broadly authorizes an agency to issue regulations thereby authorizes the agency to issue substantive rules which have the force and effect of law. *See, e.g., Chrysler Corp. v. Brown*, 441 U.S. 281, 808 (1979); *FPC v. Texaco, Inc.*, 377 U.S. 88 (1964); *United States v. Storer Broadcasting Co.*, 351 U.S. 192 (1956); *National Broadcasting Co. v. United States*, 319 U.S. 190 (1943).[10]

> thereunder will be sustained so long as it is "reasonably related to the purposes of the enabling legislation."

411 U.S. at 369.

In *American Trucking Ass'n v. United States*, 344 U.S. 298 (1953), the Court upheld Interstate Commerce Commission authority to regulate the trucking industry. The Court rejected the argument that the ICC had exceeded its authority because the statute lacked an express delegation regarding the practices in question:

> We hold then that the promulgation of these rules for authorized carriers falls within the Commission's power, despite the absence of specific reference to leasing practices in the Act. The grant of general rule-making power necessary for enforcement compels this result.

344 U.S. at 312, citations omitted.

[10] The specific authority of the Department of the Treasury and the Customs Service to promulgate substantive rules regarding importation has been upheld in *Tex Mex Brick & Import Co. v. United States*, 305 F.Supp. 927 (Cust. Ct. 1969), *aff'd*, 449 F.2d 1898 (C.C.P.A. 1971), which held that 19 C.F.R. § 16.9 created binding obligations on importers and customs officials. The court emphasized that "[c]ustoms regulations, authorized by law, are mandatory and have the force and effect of law." 305 F.Supp. at 931.

Thus, unless the Customs Service regulation is not "reasonably defensible" or a "permissible construction of the statute," it should be upheld and is entitled to the force and effect of law.

Alternatively, the Customs Service regulation should be upheld as a proper exercise of agency enforcement discretion. In *Heckler v. Chaney*, 105 S.Ct. 1649, 1659 (1985), the Court held that a decision not to enforce a statute to its fullest extent is committed to agency discretion, at least in an individual instance. An agency decision not to enforce a statute to its farthest limits is thus generally left for Congress to review. 105 S.Ct. at 1657. This approach recognizes that a myriad of factors go into agency enforcement decisions and that the agency has an advantage over the courts in applying those factors to the situations it faces on a regular basis. 105 S.Ct. at 1656. As the Federal Circuit recognized in *Vivitar*,[11] and the Second Circuit recognized in *Olympus*,[12] the Customs Service is entitled to exercise reasonable discretion in its enforcement of Section 526.

The Customs Service regulation viewed in this light represents an agency decision not to enforce Section 526 to its farthest possible limit. That is, rather than automatically excluding all parallel imports, the Customs Service has followed congressional intent and chosen to engage in administrative enforcement only in clear-cut cases. The court below, without citing anything, posited, however, that "the Customs Service has never purported to justify these regulations as an exercise of enforcement discretion." 790 F.2d at 918 (K mart Pet. p. 31a). This statement is contradicted by the government's stated position in this case. Moreover, as the Second Circuit recognized, the regulation can be upheld on the theory of enforcement discretion, even if the agency itself did

[11] 761 F.2d 1552, 1568-1570.

[12] 792 F.2d 315, 320-321.

not advance the theory. *SEC v. Chenery Corp.*, 318 U.S. 80, 88 (1943). *See Olympus*, 792 F.2d 315, 321 n.1 (2d Cir. 1986).

III. The Customs Service Regulation Is Consistent With Congressional Intent.

Section 526 of the Tariff Act is not clear on its face, and thus resort to the legislative history is appropriate to determine the congressional purpose and whether the Customs Service regulation is reasonable. *Mills Music, Inc. v. Snyder*, 105 S. Ct. 638, 641 (1985) ("Before focusing on the meaning of the key phrase, we shall describe . . . the circumstances surrounding Congress' adoption of the 1976 Act . . . ."); *Dickerson v. New Banner Institute, Inc.*, 460 U.S. 103, 118 (1983) ("[O]ur task is to interpret the words of [the statute] in light of the purposes Congress sought to serve." (citation omitted)); *United States v. Turkette*, 452 U.S. 576, 580 (1981), *quoting CPSC v. GTE Sylvania, Inc.*, 447 U.S. 102, 108 (1980) (language not conclusive in light of "clearly expressed legislative intent to the contrary"); *Griggs v. Duke Power Co.*, 401 U.S. 424, 434 (1971).[13]

If the court below was correct in its "literal" reading of Section 526, that reading cannot prevail if it is "plainly at variance with the policy of the legislation as a whole." *United States v. American Trucking Ass'n*, 310 U.S. 534, 543 (1940).

This approach was outlined in *Chevron, U.S.A., Inc. v. Natural Resources Defense Council, Inc.*, 104 S. Ct.

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[13] There are virtually no cases in which legislative history will not be examined. *See, e.g., Zenith Radio Corp. v. United States*, 437 U.S. 443 (1978). *See also* P. Wald, Some Observations on the Use of Legislative History in the 1981 Supreme Court Term, 68 Iowa L. Rev. 195 (1983).

2778 (1984).[14] First, a court must examine the language and legislative history of the statute to determine "whether Congress has directly spoken to the precise question at issue"; if it has not, the court should interpret Congressional silence as an authorization for the agency to fill the gap.[15] Second, having inferred such a delegation of authority, the court must determine whether the agency's construction is reasonable.[16]

Even the court of appeals conceded that Congress has not "directly spoken to the precise question at issue." First, there is no indication whatsoever that in 1922, multinational enterprises were using trademark licenses to divide world markets and insulate the United States from price competition.[17] Second, had Congress directly spoken with the clarity required by *Chevron*, the COPIAT position would not have been rejected by so many courts over the past decades.[18]

Recently in *Lawrence County v. Lead-Deadwood School District*, 105 S. Ct. 695 (1985), the Court had to construe the following statutory language: "A [local government] unit may use the [federal] payment for any governmental purpose." A more simple and straightforward declaratory English sentence can hardly be imagined, especially when compared with the turgid prose of Section 526. Yet the South Dakota Supreme Court read it wrong:

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[14] *See* The Supreme Court, 1983 Term, 98 Harv. L. Rev. 1, 247-255 (1984).

[15] 104 S. Ct. at 2781-2782, 2793.

[16] 104 S. Ct. at 2781-2783.

[17] In fact, Section 526 was enacted to deal with the very specific trademark fraud situation in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921), *rev'd*, 260 U.S. 689 (1923), which had nothing to do with parallel import distribution competition.

[18] See cases cited in note 1 above.

> Contrary to the views expressed in the court below, [the statutory language] does not of its own force dispose of the county's case. Resort to other indicia of the meaning of the statutory language is therefore appropriate.

105 S. Ct. at 699. The Court went on to examine the legislative history.

The usual sources of legislative intent are floor debates, sponsors' statements, and committee reports.[19] These sources, when read fairly, yield a clear picture of the purpose behind Section 526 and demonstrate the reasonableness of the Customs Service regulation. The court of appeals, however, dismissed these expressions of congressional intent by speculating that: the sponsors of Section 526 did not really understand the *Katzel* decision which motivated them;[20] the conference committee mistakenly believed that *Katzel* was an import exclusion case rather than a trademark infringement case;[21] and proponents and opponents of Section 526 respectively understated and exaggerated the significance of the legislation (and thus their statements cannot be accepted at face value).[22]

By contriving an excuse for disregarding the clearest expressions of legislative intent, the court of appeals

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[19] *See Chevron, U.S.A., Inc. v. National Resources Defense Council, Inc.*, 104 S. Ct. 2778, 2786-2787 (1984); *Sure-Tan, Inc. v. NLRB*, 104 S. Ct. 2803, 2809-2810 (1984); *Secretary of the Interior v. California*, 104 S. Ct. 656, 661-663 (1984); *Garcia v. United States*, 105 S. Ct. 479, 482 (1984); *Mills Music, Inc. v. Snyder*, 105 S. Ct. 638, 643 (1985); *Lawrence County v. Lead-Deadwood School District*, 105 S. Ct. 695, 699 (1985); *Chemical Manufacturers Ass'n v. Natural Resources Defense Council, Inc.*, 105 S. Ct. 1102, 1108 (1985).

[20] 790 F.2d at 911 (K mart Pet. p. 17a).

[21] 790 F.2d at 910 (K mart Pet. pp. 15a-16a).

[22] 790 F.2d at 912 (K mart Pet. p. 19a).

reached an absurd result which is directly contrary to any conceivable intention of the protectionist Congresses of the 1920's and 1930's—that Section 526 protects foreign manufacturers and foreign trademark owners at the expense of American consumers. We therefore turn to the legislative history.

The legislative history of Section 526 is replete with uncontradicted references to the reason for its passage, namely, to negate the holding of the Second Circuit in *A. Bourjois & Co. v. Katzel*, 275 F. 539 (2d Cir. 1921) ("*Katzel*").[23]

The facts in *Katzel* were simple: an American company had purchased from a French manufacturer all American rights to the manufacture and sale of face powder bearing the JAVA trademark. Over a period of years, the American company had come to be identified by the American public as the source of JAVA face powder, thanks to extensive advertising, to repackaging of French bulk powders in new containers and to careful blending of colors uniquely suitable to the American market.[24] 260 U.S. at 691. In short, the JAVA face powder sold in America was not the same as the JAVA face powder sold in France, and the American and French trademark owners were separate and unrelated companies.

When another American retailer purchased face powder from the French manufacturer, imported it into the United States and sold it to American consumers under the JAVA trademark, the American trademark owner

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[23] After Section 526 was enacted, the Supreme Court also reversed the Second Circuit. 260 U.S. 689 (1923).

[24] As the Supreme Court briefs in *Katzel* explain, the American trademark owner sifted and recolored the bulk powder before repackaging it in new boxes (which were made in America). Brief for Petitioner at 10, *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1912) (No. 190, Jan. 8, 1923).

sued. The Second Circuit held that the American trademark owner had no cause of action. Both Congress and the Supreme Court sensed a fraud and sought to remedy the inequity—Congress by passing Section 526 and the Supreme Court by reversing the Second Circuit.[25]

Justice Holmes, in a brief opinion, held that it would be unfair for the French manufacturer to have its goods marketed in the United States by anyone other than the American trademark owner who had purchased all JAVA rights from the French manufacturer. Such a "contrivance" "for the purpose of evading the effect of the transfer" of trademark rights "must fail." 260 U.S. at 691.[26]

Congress in 1922 likewise wanted specifically to overrule *Katzel* and generally to protect the contractual property rights of independent American manufacturers and producers who, as the plaintiff in *Katzel*, had purchased full trademark rights from a foreign company.[27]

Senator Sutherland, a sponsor of the 1922 legislation which became Section 526 when it was reenacted in the

[25] The present Customs Service regulation is consistent with the final judicial resolution of *Katzel*. Since the American trademark owner was not affiliated with the French manufacturer and the JAVA trademark had not been applied to the French goods with the authorization of the American trademark owner, JAVA face powder could be imported only by the American trademark owner under 19 C.F.R. § 133.21(c) (1986).

[26] COPIAT, on the other hand, would have the Customs Service and courts recognize and enforce "transfers" and "assignments" of trademark rights from a foreign parent company to its wholly owned domestic subsidiary—"contrivances" to charge American consumers higher prices for foreign products than consumers pay anywhere else in the world.

[27] Given the highly protectionist attitude which prevailed in the 1920's and 1930's, it is ludicrous to suggest that Congress "intended" section 526 to benefit foreign manufacturers in any way —especially not to insulate them from price competition and not to allow them to gouge the American consumer.

Tariff Act of 1930, succinctly expressed the legislative purpose:

> Mr. President, all that this paragraph does is to prevent fraud, and I believe that the Senate is in favor of protecting the property rights of American citizens who have purchased trade-marks from foreigners, and when these foreigners deliberately violate the property rights of those to whom they have sold these trade-marks by shipping over to this country goods under those identical trade-marks.

62 Cong. Rec. S 11,603 (Aug. 19, 1922).

The conference report also reflects the Congressional purpose to protect from foreign competition American companies which had acquired American rights to a foreign trademark and applied that trademark to goods which they manufactured in America, like the plaintiff did in *Katzel:*

> A recent decision of the circuit court of appeals [*i.e.*, *Katzel*] holds that existing law does not prevent the importation of merchandise bearing the same trademark as merchandise of the United States, if the imported merchandise is genuine and if there is no fraud upon the public. [Section 526] makes such importation unlawful without the consent of the owner of the American trademark *in order to protect the American manufacturer or producer.*[28]

H.R. Rep. No. 1223, 67th Cong., 2d Sess. 158 (1922) (emphasis supplied). The conference report accurately described *Katzel*, since in *Katzel* the American trademark owner did not merely import and sell JAVA powder packaged by the French manufacturer (as the typical

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[28] Amazingly, the court of appeals deleted the underlined portion of this quotation, thereby seriously misleading the casual reader as to the congressional purpose in passing Section 526. 790 F.2d at 910 (K mart Pet. p. 15a).

COPIAT member would).[29] The American trademark owner repackaged bulk French powder in new JAVA-labelled containers, selected colors uniquely suitable to the American market, sifted and recolored the bulk French powder and thus had come to be identified by the American consumer as the source of JAVA powder.[30] In short, the American owner of the JAVA trademark, unlike Cartier, Charles of the Ritz, Seiko and other COPIAT members who manufacture nothing in the United States, was precisely the "American manufacturer or producer" which the 1922 Congress stated that it wanted to protect.

Incredibly, the court of appeals regards this passage from the conference report and Justice Holmes' *Katzel* decision as primarily important for establishing "what has come to be called the 'territoriality' theory of trademark," 790 F.2d at 909 (K mart Pet. p. 14a), which, the court of appeals posits, Congress subsequently embraced in passing Section 526.

This is simply incorrect. Nothing in *Katzel* indicates that Justice Holmes endorsed such a concept. In fact, in *Katzel*, the French and American powders were different and Justice Holmes found that since the French manufacturer had sold all its American rights to JAVA, it subsequently "could not convey [JAVA] goods free from the restriction to which [the manufacturer was] subject." 260 U.S. at 692. Moreover, after the transfer of rights, the American trademark owner had developed an independent goodwill in JAVA such that "the labels have

[29] As the Supreme Court brief in *Katzel* explains, the American owner of the JAVA trademark recolored and sifted bulk powder from the French manufacturer and could buy powder from any source in the world or manufacture the powder itself and place the JAVA trademark on it. Brief for Petitioner at 9-10, *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1912) (No. 190, Jan. 8, 1923).

[30] Brief for Petitioner at 10, *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1912) (No. 190, Jan. 8, 1923).

come to be understood by the public here as meaning goods coming from the plaintiff" rather than from the French manufacturer. 260 U.S. at 691.

If there were any doubt about the position of the petitioner in *Katzel* on "trademark territoriality," it is resolved by reference to the Petitioner's Brief:

> A purchaser of Eternelle violin strings expects to receive Muller's famous German product and he is not interested in the identity of Muller's New York exclusive selling agent.
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> * * * *
>
> [T]he sale in the United States of violin strings, sold here under the name "Eternelle" and known throughout the United States as being the product and output of Muller of Germany, would in no sense undermine Muller's market in the United States *whether imported through his exclusive agent in New York or through any other concern; on the contrary, so far as Muller's trade with the United States is concerned, which is the trade the United States recognizes, Muller's business would only be fostered.*

Brief for Petitioner at 22-23, 27, *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923) (No. 190, Jan. 8, 1923) (emphasis supplied). It is likewise so with Cartier, Charles of the Ritz, Seiko and other COPIAT members. When their trademarked products are purchased abroad from their foreign parent companies and parallel imported into the United States, their overall "business would only be fostered"—except, of course, insofar as they would prefer to reap unconscionable profits by trying to force the American consumer to pay a much higher price for the identical merchandise purchased through their wholly owned "exclusive agents" or captive dealers in the United States. Of course, the American consumer "is not interested in the identity of [any COPIAT member's] New York exclusive selling agent."

If there were any doubt about Justice Holmes' position, it was resolved by his soon-to-follow decision in *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924). There, the French manufacturer of COTY cosmetics complained that Prestonettes was using the COTY trademark on COTY cosmetics which Prestonettes had imported in bulk and repackaged in smaller containers. (In contrast, the petitioner in *Katzel* was remanufacturing French powder and selling it under the JAVA trademark which it had purchased.) Justice Holmes ruled that Prestonettes could identify its repackaged cosmetics as COTY, since that is what they were: "A trade-mark only gives the right to prohibit the use of it so far as to protect the owner's good will against the sale of another's product as his." 264 U.S. at 368. COTY cosmetics were COTY cosmetics, regardless of who sold them; and it is just so today with CARTIER, CHARLES OF THE RITZ, SEIKO and SONY products.

Perhaps Congress did not properly understand the facts of *Katzel* or fully appreciate how Section 526 would be misread by the District of Columbia Circuit some six decades later. The legislative purpose, however, could hardly be more clearly stated, and it was emphatically not to protect foreign manufacturers and harm American citizens by preventing the importation of genuine trademarked goods when a single multinational enterprise manufactures trademarked goods abroad and markets them worldwide. Yet that is the admitted result of the decision below. 790 F.2d at 917-918 (K mart Pet. pp. 30a-31a).[31]

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[31] It is the conceded intention of Cartier, Charles of the Ritz, Seiko and the other members of COPIAT to use the Customs Service to enforce, on the pretext of trademark rights, territorial distribution restrictions which are designed to make American consumers pay higher prices than consumers anywhere else in the world for foreign merchandise. American manufacturers, on the other hand, cannot enlist governmental agencies to enforce territorial restrictions or other arguably anticompetitive contractual

The present Customs Service regulation on parallel imports, in contrast, is fully consistent with these earliest expressions of Congressional intent and judicial construction of the tariff and trademark statutes: American producers and manufacturers are protected from "unauthorized" imports; American consumers are protected from non-genuine goods; and purchasers of American rights to foreign trademarks are protected from fraud. Moreover, the Congressional purpose has been achieved without expanding trademark rights to the detriment of the American consumer or the public good.

In short, by a "literal" reading of the statutory language and highly selective, if not misleading, references to the legislative history, the court of appeals has distorted Section 526 to reach a tortured construction at odds with the legislative purpose. Even if the statutory language were a model of clarity, the court of appeals approach is contrary to the rule that the purpose of legislation, rather than its literal words, should be followed if the statutory language seems "plainly at variance with the policy of the legislation as a whole." *United States v. American Trucking Ass'n*, 410 U.S. 534, 543 (1940).

The court of appeals approach to legislative history cannot be condoned. If a court is free to disregard floor debate by characterizing it as exaggeration or understatement, to ignore sponsors' statements by labelling them mistaken, to reject conference reports as misinformed, and to distort quotations from all of these sources, the process of judicial review becomes a mockery of logic and consistency.

IV. The Customs Service Regulation Has Been Ratified By Congress.

The court of appeals dismissed the contradiction between the public interest and its reading of Section 526 by admonishing those who have relied on the Customs

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arrangements either in the United States or abroad. See Section V.C. below.

Service regulation for over five decades that "these arguments are properly addressed to Congress." 790 F.2d at 918 (K mart Pet. p. 31a). This disingenuous suggestion ignores the fact: (a) that Congress delegated to the Customs Service the authority to adopt rules and regulations to carry out Section 526, with the public interest in mind; and (b) that Congress has indeed considered "these arguments" many times over the past sixty years. Congress has been apprised of the Customs Service interpretation of Section 526 and Congress has both approved it and consciously not modified it. As the Second Circuit stated in *Olympus*, "congressional acquiescence in the longstanding administrative interpretation of the statute legitimates that interpretation." 792 F.2d at 320. The court below, however, mischaracterized repeated congressional references to the Customs Service regulation on parallel imports as legislative "silence," 790 F.2d at 914 (K mart Pet. p. 23a), when Congress has been anything but silent on this issue.

Under the doctrine of legislative ratification, where Congress has revisited a statute, is aware of the administrative interpretation, and does nothing to interfere with it, a court is to presume that the agency interpretation correctly reflects Congressional intent. In *United States v. Rutherford*, 442 U.S. 544 (1979), the Court stated:

> [T]he construction of a statute by those charged with its administration is entitled to substantial deference. Such deference is particularly appropriate where, as here, an agency's interpretation involves issues of considerable public controversy, and Congress has not acted to correct any misperception of its statutory objectives.

442 U.S. at 553-554 (citations omitted). The Court continued in a footnote:

> [O]nce an agency's statutory construction has been "fully brought to the attention of the public and the Congress," and the latter has not sought to alter the interpretation although it has amended the statute

> in other respects, then presumably the legislative intent has been correctly discerned.

442 U.S. at 554 n.10. *Accord, Merrill Lynch, Pierce, Fenner & Smith, Inc. v. Curran*, 456 U.S. 353, 382 n.66 (1982); *Haig v. Agee*, 453 U.S. 280, 297-298 (1981). Similarly, when Congress has been specifically informed of an agency's interpretation of a statute and yet does not act to modify the interpretation when "enacting . . . related legislation," Congressional "acquiescence . . . and ratification" may be presumed. *Bob Jones University v. United States*, 461 U.S. 574, 599 (1983). A glance at the United States Code Annotated shows that Congress has actually amended Section 526 four times since 1922. When Congress passed these amendments—as well as when it considered but did not pass other proposed amendments—it ratified the prevailing Customs Service interpretation and implementation of Section 526.

The original congressional intent in 1922, as described in Section III above, was first reiterated when the statutory provision was reenacted as Section 526 of the Tariff Act of 1930. Senate Reed stated his understanding of Section 526 during debate:

> Obviously the purpose of that provision is to protect the American owner of the trade-mark against importations of articles which have been stamped with his mark without his consent.

71 Cong. Rec. S 3,873 (Sept. 23, 1929).[32]

In the early 1940's, Congress was advised of and approved the 1936 Customs Service regulation (in the trademark context) when the Lanham Act was passed. Indeed, the Tariff Commission memorandum discussing the

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[32] Since articles manufactured abroad by the parent, subsidiary or licensee of an American trademark holder have been marked with its consent, they do not come within the ambit of Section 526 as it was understood and intended by Congress in 1930. Senator Reed's statement reflects the substance of 19 C.F.R. § 133.21(c)(3).

1936 regulation was incorporated in the legislative history of the Lanham Act:

> In 1936 (T.D. 48537) the Treasury Department made important changes in the regulations. . . . The new regulations provided . . . that merchandise manufactured in a foreign country under a trademark is not to be deemed for the purpose of these regulations to "copy or simulate" such United States trade-mark if such foreign trade-mark and such United States trade-mark are owned by the same person.

Trademarks: Hearings On H.R. 82 Before a Subcommittee of the Senate Committee On Patents, 78th Cong., 2d Sess. 86 (1944). In short, Congress expressly ratified the Customs Service regulation regarding parallel importation when it passed the Lanham Act in 1946.

In 1951, the Customs Service interpretation of Section 526 was again presented to Congress when the Customs Service responded to an inquiry from Senator Douglas by explaining in detail the Customs Service regulation and its application to parallel imports. Letter from Frank Dow, Commissioner of Customs, to Senator Paul Douglas (March 23, 1951) (J.A. 52).

In 1954, the proposed Customs Simplification Act would have excepted American trademark holders with foreign affiliates from Section 526 protection, a statutory equivalent of 19 C.F.R. § 133.21(c)(1) and (2). Congress was advised by the Treasury Department that the provision was meant "to confirm the present regulations which Customs [had] outstanding" under Section 526.[33] This portion of the bill was deleted during House hearings by unanimous consent and with the concurrence of the Treasury Department.[34]

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[33] Hearings on H.R. 9476 (Customs Simplification Act of 1954) before the House Committee on Ways and Means, 83d Cong., 2d Sess. 9 (1954).

[34] The court of appeals wrongly characterizes this as a "defeat" of the legislation which indicates congressional disapproval of the

In 1959, a proposal to repeal Section 526 was introduced, but no hearings were held and it was never reported out of committee.[35]

In connection with the Customs Procedural Reform and Simplification Act of 1978,[36] the House Ways and Means Committee also specifically recognized the Customs Service parallel import practice:

> [Section 526] has been consistently interpreted by the United States Customs Service for the past 20 year as excluding from protection foreign-produced merchandise bearing a genuine trademark created, owned, and registered by a citizen of the United States if the foreign producer has been authorized by the American trademark owners to produce and sell abroad goods bearing the recorded trademark.

H.R. Rep. No. 621, 95th Cong., 1st Sess. 27 (1977).[37]

Customs Service regulation. 790 F.2d at 915 (K mart Pet. p. 25a). There is no indication that Congress disapproved of the Customs Service regulation in 1954; to the contrary, it would have been unnecessary for Congress to enact legislation when it agreed that the existing regulation was proper. Had Congress disapproved of the regulation, it would have enacted appropriate legislation to change it, as in 1978 when Congress disagreed with Customs Service restrictions on the importation of trademarked merchandise for personal use. Congress overruled the Customs Service by legislating an exception. 19 U.S.C. § 1526(d). 790 F.2d at 916 (K mart Pet. pp. 27a-28a). This reversed *Sturges v. Clark D. Pease, Inc.*, 48 F.2d 1035 (2d Cir. 1931).

[35] The proposal was not "rejected" by Congress, as the court of appeals wrongly stated. 790 F.2d at 915 (K mart Pet. p. 26a).

[36] Pub. L. No. 94-410, 92 Stat. 888, 903.

[37] The court of appeals found this inconclusive because neither the Senate Report nor the Conference Report referred to the Customs Service practice. 790 F.2d at 916 (K mart Pet. p. 28a). Presumably, however, these reports would have reflected any disagreement with the House Report or with the Customs Service, if any such disagreement had existed.

Any lingering doubt about Congressional awareness of Customs Service regulation on parallel imports is dispelled by the Senate Report on the Trademark Counterfeiting Act of 1984: [38]

> [The Act] does not include within its coverage so-called "gray-market" goods—i.e., authentic trademarked goods that have been obtained from overseas markets. The importation of such goods is legal under certain circumstances. For example, the Treasury Department has long interpreted section 526 . . . to permit the importation of such goods when the foreign and domestic users of the trademark are affiliated through common ownership and control. *See* 19 C.F.R. § 133.31(c).

S. Rep. No. 98-526, 98th Cong., 2d Sess. 3 (1984), *reprinted in* 1984 U.S. Code Cong. & Admin. News 3627, 3629.

Most recently, Congress considered the issue of parallel imports in connection with imported wines and spirits. States such as Washington, Pennsylvania and Virginia have each saved their consumers some $20 million annually by parallel importing rather than purchasing through "authorized" beverage distributors. A testing and labelling requirement which would have effectively banned these parallel imports was denounced on the floor of the House as a "price-fixing bill" which would "establish a monopoly, plain and simple." 132 Cong. Rec. H 11,083 (daily ed. Oct. 15, 1986).

Not surprisingly, the congressional debate in 1986 was not much different from that of 1922. Congressman Dicks accurately described the effect of a ban on parallel imports:

> [W]hat you are doing is creating a monopoly for the importers of these various brands. You are creating a monopoly.

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[38] Pub. L. No. 98-473, Chap. XV, 98 Stat. 2178.

> Now with the parallel market in Europe, the States that have controlled liquor can buy on the parallel market for a vastly reduced cost to the consumers of the various States.

132 Cong. Rec. H 11,081 (daily ed. Oct. 15, 1986). The opponents of parallel liquor imports raised a "health and safety" argument not unlike COPIAT's "intellectual property" argument. Congressman Frenzel, however, recognized the sham:

> In my judgment, the amendment purports to address potential health hazards of certain wine, beer, and spirits imports; nevertheless, its real purpose [is] to preclude the importation of parallel or gray market imports of these products.
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> * * * *
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> I believe that in prohibiting parallel imports we would create a precedent that would aid those who are attempting to eliminate all parallel imports in the future. I am sure that that is a precedent that most of us do not want. Gray market purchases have not caused substantial business losses from authorized dealers. They have given many consumers an opportunity to purchase goods that they would not otherwise be able to purchase.

132 Cong. Rec. H 11,082 (daily ed. Oct. 15, 1986).

In the course of this debate, Congress again recognized the Customs Service interpretation of Section 526 which allows parallel imports. As Congressman Gray stated:

> This amendment also has the potential of setting a very dangerous precedent by protecting a certain class of manufacturers and importers, where in fact we do not treat others, most notably in the area of sporting goods, electronic items, and literally millions of dollars in other imported items.

132 Cong. Rec. H 11,083 (daily ed. Oct. 15, 1985).

The proposal was soundly defeated by a vote of 297 to 113.

In short, the Customs Service regulation has not been kept a secret from Congress and the public for over five decades, and Congress has not been "silent" on the subject of parallel imports. Congress has often considered amending Section 526, either to codify parts of the Customs Service regulation or to repeal Section 526 altogether. 790 F.2d at 914-916 (K mart Pet. pp. 23a-28a). From this, *Rutherford* mandates judicial acceptance of the Customs Service reading of legislative intent. For the court below to mischaracterize this history as legislative "silence," 790 F.2d at 914 (K mart Pet. p. 23a), is another gross distortion of judicial review.

V. The Customs Service Regulation Has Been Consistent And Comports With Public Policy.

Even if the court of appeals were correct that the legislative history of Section 526 is ambiguous and that Congress has not somehow ratified the Customs Service policy on parallel imports, the regulation is sufficiently reasonable to be sustained.

A. *The Customs Service Has Been Consistent.*

The Customs Service policy on parallel imports has been carried out for fifty years, insofar as the regulation adopted in 1936 [39] does not differ in any material respect from the provision in force today.[40] Although the 1936 regulation is the first to mention an exception from Section 526 protection where the United States and foreign trademark holders are commonly owned, there is no evidence of a contrary Customs Service practice prior to that date.

The court of appeals cites Customs Service regulations of 1923 [41] and 1931,[42] which merely recited or adopted

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[39] 1 Fed. Reg. 1,725 (1936) (T.D. 48,537) (J.A. 27-28).

[40] 19 C.F.R. § 133.21.

[41] Article 475, Customs Regulations of 1923 (T.D. 40,380) (J.A. 17).

[42] Article 518, Customs Regulations of 1931 (J.A. 23).

by reference Section 526, as proof that the Customs Service has not interpreted Section 526 consistently. 790 F.2d at 914 (K mart Pet. p. 22a). This conclusion is incorrect, even if it were incumbent on the agency to demonstrate six decades of uniform enforcement policy.

There is no evidence cited by the court of appeals either: to suggest that in the 1920's foreign manufacturers by the thousands were establishing wholly-owned distributors in the United States; or to indicate that the Customs Service ever enforced Section 526 in any way other than the way in which the regulation is now phrased. This is stated expressly in the 1977 House Report cited in Section IV above (covering at least the twenty year period from 1957 to 1977) and is the conclusion of authorities on the Customs law:

> Actually, [Customs] had *always* denied complete exclusionary protection to an American trademark registrant when it knew the importer to be a subsidiary or parent of the foreign user of the trademark. Prior to 1953, however, the Customs Regulations were not set up to specifically elicit this kind of information.

J. Atwood, Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs, 59 Trademark Rep. 301, 307 (1969) (emphasis supplied).

The Customs Service has never repudiated the policy clearly expressed in its 1936 regulation, *i.e.*, that foreign goods bearing a trademark owned in the foreign country "by the same person" who owns the domestic trademark should not be excluded on trademark or tariff grounds. A 1953 revision of Customs Service regulations did not change this basic rule. Instead, it added to the "same person" language published in 1936 the phrase "or by a related company as defined in Section 45 of the Trade-

mark Act of 1946."[43] This language was clearly consistent with the "same person" requirement of the 1936 regulation. The "related company" reference merely clarified the concept that if the domestic trademark owner controls or is controlled by the foreign company, parallel importation is permitted.

The addition of this language in 1953 solidified the previous rule prohibiting controlled arms of a United States trademark owner from dividing world markets. The "same person" provision of the 1936 rule clearly encompassed a "controlled" entity overseas, as the Commissioner of Customs explained to Senator Paul Douglas in 1951:

> However, if the United States trade-mark owner and the owner of the foreign rights to the same mark are one and the same person, articles produced and sold abroad by the foreign owner may be imported by anyone for the reason that the trade-mark owner has himself introduced the articles into commerce or authorized such introduction and may not unreasonably restrict the use of the product thereafter. For this purpose a foreign subsidiary or licensee of the United States trade-mark owner is considered to stand in the same shoes as such trade-mark owner.[44]

(J.A. 53).

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[43] T.D. 53,399 (J.A. 56). The Lanham Act defines related company as follows:

> The term "related company" means any person who legitimately controls or is controlled by the registrant or applicant for registration in respect to the nature and quality of the goods or services in connection with which the mark is used.

15 U.S.C. § 1127.

[44] This letter makes it quite clear that a controlled licensee falls within the parameter of the 1950's regulation, despite the nature of the financial affiliation between that licensee and the registrant. This language harmonizes any possible disparity between the intent of the 1936 regulation and the 1953 reference to the "related companies" provision of the Lanham Act.

The "related company" language was deleted in 1959.[45] However, after 1959, just as prior to 1953, the Customs Service viewed the American and foreign owners of a trademark as "the same person" if they were parent and subsidiary or otherwise under common control; Mr. Atwood stresses that foreign trademarked merchandise could be imported by anyone where "the American registered mark is owned or controlled by a foreign firm or an American firm under foreign ownership or control . . . ." Atwood at 310.[46]

A 1968 Treasury Decision again explicitly made the "parent-subsidiary relationship" and "control" the critical factors to determine if foreign goods could be imported by other than the captive domestic distributor:

> The trademark or trade name on imported foreign-produced merchandise shall not be deemed to copy or simulate a registered trademark or trade name, if the foreign producer is the parent or subsidiary of the American owner or the firms are under a common control. Further, if a foreign producer has been authorized by the American owner to produce and sell goods abroad bearing the recorded trademark or trade name, merchandise so produced and sold is deemed admissible.

T.D. 69-12(2) (1968) (J.A. 65).

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[45] T.D. 54,932 (1959) (J.A. 61).

[46] Atwood's view is supported by letters written by the Customs Service to trademark holders during the 1950's and 1960's. Letter from Frank Dow, Commissioner of Customs, to Senator Paul Douglas (March 23, 1951) (J.A. 52); letter from B.H. Flinn, Deputy Commissioner of Customs, to Walter A. Slowinski (July 2, 1962) (J.A. 62); letter from B.H. Flinn, Deputy Commissioner of Customs, to Selig J. Levitan (March 15, 1963) (J.A. 63).

Following this consistent course, the Customs Service promulgated and published in 1972 the regulatory text now under challenge.[47] This regulation spells out the fact that either a financial relationship or control will justify the free importation of trademarked goods.[48] It is simply wrong for the court of appeals to surmise that the Customs Service policy was initiated only in 1972 as a response to *United States v. Guerlain, Inc.*, 172 F. Supp. 107 (S.D.N.Y. 1959).[49]

Even if the court of appeals were correct that the Customs Service regulation has been in effect only since 1972, this 14-year period is itself sufficient to accord the agency practice considerable respect. *Lawrence County v. Lead-Deadwood School District*, 105 S.Ct. 695, 699 (1985) (deferring to agency practice of eight years).

Given the changes in the American attitude toward foreign trade (and the antitrust laws) since 1922, it is not surprising that the wording of the Customs Service regulation has changed a bit or that the justification for the regulation has varied; it would be a rare policy, whether executive, judicial, legislative or administrative

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[47] 37 Fed. Reg. 20,677 (Oct. 3, 1972); 19 C.F.R. § 133.21.

[48] *See* 19 C.F.R. § 133.21(c)(1), (2), and (3).

[49] The court of appeals cited instances of seeming interagency "confusion" in *Bell & Howell: Mamiya Co. v. Masel Supply Co.*, 719 F.2d 42 (2d Cir. 1983), and *Guerlain, Inc. v. United States*, 358 U.S. 915 (1958). The government has explained that in *Bell & Howell*, the Antitrust Division took the position that broad enforcement of Section 526 was not necessarily inconsistent with the antitrust laws. In *Guerlain*, the Customs Service had construed its regulation as not applying to the defendants because the corporate relationship between the foreign and domestic trademark owners was unclear; as Atwood notes, the Customs Service at that time did not elicit the necessary information to make such a determination.

which remained absolutely static and unchanged for over six decades.[50]

There was yet another reason for the court of appeals not to disturb the Customs Service regulation on parallel imports.[51] A court should be especially wary of challenges to administrative regulations which are presently the subject of active agency review. Specifically, on May 31, 1984, the Cabinet Council on Commerce and Trade, through the Departments of Treasury and Commerce, solicited public comment on the issue of parallel imports with a view toward formulating a comprehensive policy on the issue.[52] President Reagan characterized this as an effort to "formulat[e] a cohesive policy in this area." [53] After reviewing data submitted in 1984, the President's Economic Policy Council has recently solicited additional information to perform a cost-benefit analysis of specific regulatory options on parallel imports.[54]

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[50] Likewise, when the President disapproved the International Trade Commission determination in *Certain Alkaline Batteries*, ITC Inv. No. 337-TA-168 (Nov. 5, 1984), he did so because it was "at odds with the longstanding regulatory interpretation [of Section 526 of the Tariff Act and Section 42 of the Lanham Act] by the Department of the Treasury." 50 Fed. Reg. 1,655 (Jan. 11, 1985). Thus, of the executive, legislative, judicial and administrative bodies which have considered the question, only the District of Columbia Circuit has failed to find the Customs Service regulation of parallel imports both consistent and of long-standing existence.

[51] The court of appeals disregarded the precept that courts should not precipitously reverse an agency regulation on which private parties have substantially relied. *Zenith Radio Corp. v. United States*, 437 U.S. 443, 457-458 (1978).

[52] 49 Fed. Reg. 21,3453 (May 21, 1984); 49 Fed. Reg. 29,509 (July 20, 1984).

[53] 50 Fed. Reg. 1,655 (Jan. 11, 1985).

[54] 51 Fed. Reg. 22,005 (June 17, 1986); 51 Fed. Reg. 30,024 (Aug. 21, 1986).

COPIAT is participating in this administrative proceeding—as are K mart and 47th Street Photo—which may or may not result in changes to 19 C.F.R. § 133.21.

B. *The Customs Service Regulation Comports With The Lanham Act.*

The Customs Service generally cites both Section 526 of the Tariff Act and Section 42 of the Lanham Act as statutory authority for its parallel imports regulation.[55] And courts have historically permitted parallel imports based on both the Tariff Act and the Lanham Act.[56] The Customs Service regulation must be consistent with Section 42 of the Lanham Act because no reported decision has ever held that Section 42 of the Lanham Act bars the importation of genuine trademarked merchandise manufactured by a trademark owner or its licensee.[57] In particular, neither *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), nor *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), provides precedent for preclusion of genuine trademarked goods made by an American trademark owner's foreign affiliate.

The holding of *A. Bourjois & Co. v. Katzel* is limited to its facts, *i.e.*, to the case where an unrelated independent foreign manufacturer uses a United States trademark owner's trademark (without the owner's consent) to identify goods that are shipped into the United States. Clearly, the "copying or simulating" requirement of the Lanham Act was met in *Katzel* because the foreign manufacturer had no authority from the independent American trademark owner to use the trademark in question

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[55] *See, e.g.*, 19 C.F.R. § 11.14 (1946) (J.A. 45-46); 19 C.F.R. § 11.14 (1969) (J.A. 67). Even before the Lanham Act was passed, the Customs Service regulation was expressly based on both tariff law and trademark law *See, e.g.*, Article 517, Customs Regulations of 1931 (J.A. 21-22).

[56] See cases cited in note 1 above.

[57] See cases cited in note 1 above.

on goods that were to be shipped into the United States. Indeed, the foreign manufacturer in *Katzel* was well aware of the fact, since it had sold full American trademark rights to the petitioner.[58]

The facts in *A. Bourjois & Co. v. Aldridge*, 263 U.S. 675 (1923), were stipulated to be exactly the same as in *Katzel* (except that a different face powder was involved). Neither case dealt with corporate affiliates operating worldwide under an express consent to use the trademark as is the case with Cartier, Charles of the Ritz, Seiko and other COPIAT members. Indeed, The Supreme Court wrote no opinion in *Aldridge*, simply answering the two questions certified by the court of appeals on the authority of the *Katzel* case, which had nothing to do with foreign affiliates. *See* 292 F. 1013, 1014.

Moreover, many courts have recently held that a showing of confusion of source is a prerequisite to relief under the Lanham Act and there can be no confusion of source as to parallel distribution imports, which are, by definition, manufactured and trademarked with the authorization of the trademark holder.[59] When the American and foreign trademark owner are members of the same multinational corporate family, there can be no "American goodwill" separate from the global goodwill which the foreign parent company has generated.

Not only is the Customs Service regulation legally consistent with the Lanham Act, it is a logical expression of trademark law. Does a consumer purchase a SONY radio

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[58] As Mr. Justice Holmes said, "After the sale the French manufacturers could not have come to the United States and have used their old marks in competition with the plaintiff." 260 U.S. at 691. The court of appeals, consistent with its approach to legislative history, would presumably reject Justice Holmes' statement as misinformed, since the French manufacturer of JAVA face powder was not directly involved in the *Katzel* litigation.

[59] See cases cited in note 1 above.

because it is distributed in the United States by Sony Corporation of America; or does the consumer purchase that radio because it is designed, manufactured and sold worldwide by Sony Corporation, the parent company in Japan? It makes no sense, legally or logically, to distinguish between the foreign parent company and its wholly owned domestic subsidiary.[60] *See In re Wella A.G.*, 787 F.2d 1549, 1552-1553 (Fed. Cir. 1986).

The Customs Service regulation on parallel imports simply represents a common sense approach to both trademark and tariff law.

C. *The Customs Service Regulation Comports With Public Policy.*

Incredibly, the court of appeals posited that the Customs Service lacked "authority to infuse antitrust concerns into Section 526." 790 F.2d at 917 (K mart Pet. p. 29a).

The court of appeals scorn for the public interest is difficult to understand:

> The intervenors argue with great vigor that Section 526, as we interpret it, would deprive American consumers of the benefit of imports at prices lower than those maintained by foreign producers through exclusive distribution by their American subsidiaries. That may well be so. They further contend that other nations, particularly our trading partners and competitors, do not permit American producers to maintain prices in their countries in this fashion, and that Section 526 in today's international market

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[60] COPIAT members want to have it both ways. When antitrust issues are raised, they claim that a foreign parent and its domestic subsidiary are a single entity which cannot conspire with itself to fix prices or allocate markets, relying on *Copperweld Corp. v. Independence Tube Corp.*, 467 U.S. 752 (1984). On the other hand, when a consumer seeks warranty service on a parallel import, the wholly owned domestic subsidiary pleads complete independence from its foreign parent; and when the domestic trademark owner seeks trademark relief from parallel imports, it claims to have goodwill separate from that of its foreign parent.

> constitutes a sort of economic unilateral disarmament. That may also be so. Moreover, it is certainly true that economic and trading conditions have changed a good deal since 1922, and it may now be possible for foreign producers with an exclusive distributorship in the United States to maintain artificially high prices on desirable imports in a manner quite unforeseen sixty years ago. All of these arguments are properly addressed to Congress; it is not open to the Customs Service, still less the Judiciary, to modify the law to take into account these considerations.

790 F.2d at 917 (K mart Pet. pp. 30a-31a). It would seem that a court should not strain, as the court of appeals did, to construe a statute in a way so contrary to the antitrust laws and public interest. When Congress delegated to the Customs Service the interpretation and execution of Section 526, it certainly did not expect the agency to ignore the public interest or to read the statute in a vacuum.

The court of appeals approach is at odds with the rule that an agency must take the antitrust law into account when assessing the public interest. *Gulf States Utilities Co. v. FPC*, 411 U.S. 747, 761-762 (1973); *Denver & Rio Grande Western Railroad Co. v. United States*, 387 U.S. 485 (1967). Moreover, antitrust considerations are inherent in evaluating the proper scope of the trade rights granted by a trademark. *United States v. Sealy, Inc.*, 388 U.S. 350 (1967); *United States v. Bausch & Lomb Optical Co.*, 321 U.S. 707 (1944). Finally, antitrust exemptions of the sort COPIAT seeks are highly disfavored:

> Implied antitrust immunity is not favored, and can be justified only by a convincing showing of clear repugnancy between the antitrust laws and the regulatory system.

United States v. National Ass'n of Securities Dealers, Inc., 422 U.S. 694, 719-720 (1975). *See also FMC v. Seatrain*

Lines, Inc., 411 U.S. 726, 733 (1973); *United States v. Philadelphia National Bank*, 374 U.S. 321, 348 (1963).[61]

The Department of Justice made this clear during the rulemaking proceeding which preceded the 1972 promulgation of the present regulatory text:

> If applied literally, Section 526 arguably would prohibit imports of genuine goods identical to the goods sold under the U.S. trademark. Thus, for example, an American component of a multinational enterprise could insulate itself from competition from third parties who had purchased the identical article from the foreign affiliate of the American firm. Such a rule would not protect the consumer from deception, since the goods would be of identical quality. Its only effect would be to raise prices by eliminating competition.
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> Since Section 526 contains no explicit language indicating that such a broad exemption to the antitrust laws is intended and since repeal of the antitrust laws by implication is not favored, an interpretation of Section 526 which prevents an unnecessary elimination of competition is not only permissible but required.

Letter from Walker B. Comegys, Acting Assistant Attorney General, Antitrust Division, Department of Justice, to Myles J. Ambrose, Commissioner of Customs (Apr. 19, 1971) (J.A. 71-72).

Historically, the Court has been quick to strike down arrangements where a trademark has been used to divide territories, whether national or international. *United*

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[61] This line of authority has not been affected by *Continental T.V. Inc. v. GTE Sylvania Inc.*, 433 U.S. 36 (1977). While that case did analyze certain vertical restraints under the Rule of Reason, vertical restraints affecting price remain *per se* illegal. *See Monstanto Co. v. Spray-Rite Service Corp.*, 465 U.S. 752 (1984), *aff'g* 684 F.2d 1226 (7th Cir. 1982).

States v. Sealy, Inc., 388 U.S. 350 (1967); *Timken Roller Bearing Co. v. United States*, 341 U.S. 593 (1951), *modifying and aff'g* 83 F.Supp. 284 (N.D. Ohio 1949). Group boycotts to enforce price fixing are *per se* illegal regardless of the euphemistic label which the participants have concocted.[62] *Klor's, Inc. v. Broadway Hale Stores, Inc.*, 359 U.S. 207, 212 (1959). Any joint arrangement designed to prevent discounters from obtaining merchandise is *per se* illegal. *United States v. General Motors Corp.*, 384 U.S. 127 (1966). Moreover, the trademark laws do not allow a trademark owner to control the resale prices of goods it has sold. *Susser v. Carvel Corp.*, 332 F.2d 505 (2d Cir. 1964), *cert. dismissed*, 381 U.S. 125 (1965); *Sunbeam Corp. v. Wentling*, 192 F.2d 7, 9 (3d Cir. 1951).

Even if the fanciful court of appeals reading of the antitrust law were correct, it does not follow that the Customs Service should devote its enforcement resources to the policing of multinational market divisions effected through the trademark licensing agreements of foreign manufacturers, when the only demonstrable effect of such enforcement would be to raise dramatically the retail prices paid by American consumers. While certain vertical restraints may be legal under the antitrust laws or are challenged by private treble damage actions rather than government prosecution, a federal agency should not be forced by judicial fiat to enforce vertical price-

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[62] Whether or not a single manufacturer may legally impose trademark license restrictions, COPIAT is not a single manufacturer. It claims to be a combination of over 1,200 companies—including hundreds of *competing* manufacturers of cameras, watches, jewelry, cosmetics and fragrances, and consumer electronics. Whether or not their legislative and judicial efforts may be subject to a limited antitrust exemption, if they have jointly and concertedly refused to honor international warranties, jointly and concertedly refused to deal with discounters or jointly and concertedly adopted territorial restraints, substantial antitrust questions are raised.

fixing restrictions between a manufacturer and its distributor, whether these restraints would be considered per se illegal or analyzed under the Rule of Reason. Only if the view of the court below prevails will state and federal agencies enforce a statute so as to prevent discount retailers from obtaining genuine brand name merchandise.

The court of appeals interpretation of Section 526, however, would provide foreign manufacturers with means for market control which are simply unavailable to their American competitors. The Second Circuit recognized this in *Olympus*:

> Absent this bright line for administrative enforcement, the Customs Service would expend resources excluding goods when later private litigation could disclose that the markholder lacked isolable domestic good will and was merely engaging in price discrimination or other behavior questionable as a matter of antitrust law.

792 F.2d at 320.

Moreover, the European Community and Japan have rejected the COPIAT position as contrary to public policy.[63]

The Court of Justice of the European Communities recently ruled that a Swiss watch manufacturer could not refuse warranty service on watches sold by independent distributors. The court held that such a policy constituted a discriminatory restriction on competition which violated Article 85(1) of the Treaty of Rome. Citing its *Lancome*, *Hasselblad* and *L'Oreal* decisions, the court said:

> A guarantee system under which the supplier of goods provides a guarantee only to the customers of

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[63] Thus, as previously noted, American products can be parallel imported, without restriction, in Europe and Japan.

[its] exclusive distributor places that distributor and retailers to which it sell at an advantage in relation to parallel importers and distributors and must therefore be considered to have the object or effect of restricting competition.[64]

The European Community Commission also recently reaffirmed its policy of permitting parallel imports throughout Europe.[65] The Commission warned manufacturers that they face prosecution if they fail to honor after-sale service guarantees on products sold through parallel channels. ~~The~~ Commission concluded that the practice of some manufacturers in limiting guarantees to the manufacturer's distribution outlets violates the Community's competition law under Article 85 of the Treaty of Rome.

Japanese regulations under the Customs Duties Act permit importation of genuine trademarked goods in circumstances equivalent to the Customs Service regulation.[66] The Japanese Fair Trade Commission has declared it to be an unfair business practice to hinder parallel importation.[67] And Japan's courts have rejected an attempt by the French owner of the Lacoste trademark and its Japanese licensee to prevent the sale in Japan of Lacoste shirts manufactured for Lacoste's American trademark licensee.[68]

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[64] *E.T.A. Fabriques d'Ebauches v. DK Investment*, No. 31/81 European Court of Justice, Dec. 10, 1985, *reported in* 50 Antitrust & Trade Reg. Rep. (BNA) 262, 263 (1986).

[65] 51 Antitrust & Trade Reg. Rep. (BNA) 765 (1986).

[66] *The Procedures for Application of Import Prohibitions of Goods Infringing Intellectual Property Rights, Finc. Ref. No. 1443 of 1972.* See Takamatsu, Parallel Importation of Trademarked Goods: A Comparative Analysis, 57 Wash. L. Rev. 433, 442-443 (1982).

[67] Takamatsu, Parallel Importation of Trademarked Goods: A Comparative Analysis, 57 Wash. L. Rev. 433, 443 (1982).

[68] *Le Chemise Lacoste v. Shinshinboeki*, 48 Antitrust & Trade Reg. Rep. (BNA) 225 (1985).

In short, America's trading partners do not exclude parallel imports and do not allow manufacturers and their affiliated distributors to disown or refuse to honor product warranties on parallel imports.

This has also been recognized by American courts which have refused the pleas of COPIAT and its members to exclude parallel imports under the tariff and trademark laws. As Judge Aronowitz said in *Parfums Stern, Inc. v. United States*, 575 F.Supp. 416, 421 (S.D. Fla. 1983), "the Court would be doing the public a disservice by preventing the dissemination of . . . equally good, yet less expensive . . . products" if it does not reverse the decision below.

CONCLUSION

The judgment of the court of appeals should be reversed.

Respectfully submitted,

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